Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 4/4/2003

GAIN Report #IN3027

India

Agricultural Situation

Weekly Highlights and Hotbites, #14

2003

Approved by:
Chad R. Russell
U.S. Embassy, New Delhi
Prepared by:
A. Govindan, Santosh Kr. Singh, V. Shunmugam

Report Highlights:

***Indian Food on UN route to Iraq*, *Farm sector drags Indian GDP growth down*, *Foodgrain price review on hold*, *VAT introduction postponed*, *Export-Import policy for 2003/04 - Agricultural Aspects*, *Grain procurement costs may hit GDP growth*, *Bangladesh to import rice and wheat*, *Double grain output in ten years*, *Duty on edible oil may be revised*, *California prunes enter South India*, *Iraq war hits hotel industry*, *India seeks French help to develop grapes for wine*, *Palm oil shipments steady despite war*, *Vegetable oil refiners seek monthly review of soybean oil tariff value*, *Contract farming legislation soon: Ag Minister*.**

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1], IN

Welcome to Hot Bites from India, a weekly summary of issues of interest to the U.S. agricultural community. The report includes information that has been garnered during travel within India, reported in the local media, or offered by host country officials and agricultural analysts. Press articles are included in this report. Significant issues will be expanded upon in subsequent reports from this office.

DISCLAIMER: Any press summary contained herein does NOT reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

INDIAN FOOD ON UN ROUTE TO IRAQ

Resolving to take a more active role in the Gulf crisis, India is expected to unveil a major diplomatic and humanitarian initiative in Iraq in the coming week. India is reportedly firming up plans to supply some two million tons of wheat to Baghdad under the World Food Program (WFP) and grant rs. 1 billion ($21 million) to the United Nation's restarted 'Oil-for-Food' program for providing humanitarian relief to the war-ravaged people of Iraq. (Source: Indian Express, 03/31/03)

FARM SECTOR DRAGS INDIAN GDP GROWTH DOWN

A negative growth in the agriculture sector has erased gains in other sectors of the economy, with the FY 2002/03 third quarter (Oct-Dec) GDP growth (on annualized basis) plummeting to 2.6 percent from 6.3 percent in the corresponding quarter of FY 2001/02. The farm sector registered a negative growth rate of 7.9 percent in the third quarter, overshadowing excellent growth in most other sectors. Consequently, the GDP growth came down to 2.6 percent during the third quarter of FY 2002 from 6 percent in the first quarter and 5.8 percent in the second quarter, making it almost impossible to achieve 6 percent growth in total FY 2002/03. The agriculture sector faltered as rice production declined by 15.5 percent, coarse grain production by 29.9 percent, pulses by 18.1 percent, and oilseed production by 34.4 percent during the fall harvested *kharif* season. Production of cotton and sugarcane is also expected to decline by 11.4 percent and 4.9 percent respectively. (Source: Business Line, 04/01/03)

FOODGRAIN PRICE REVIEW ON HOLD

With an eye on the forthcoming elections, the government has rejected the Food Ministry's suggestion to reduce sale prices of rice and wheat distributed to the Above Poverty Line (APL) clientele of the Public Distribution System, which was aimed at accelerating grain offtake and alleviating storage problems. Agriculture Minister Ajit Singh opposed the Food Ministry's suggestion on the grounds that "The reduction in prices of foodgrains would be against farmers' interests, because the glut in the market would further lower (farm) prices". According to official sources, sale prices may be reduced after two months, once the marketing of the wheat is over. (Source: Business Standard, 4/3/03)

VAT INTRODUCTION POSTPONED

The Ministry of Finance has admitted that State governments have not been able to meet the April 1 deadline for introduction of the Value Added Tax (VAT) regime. An official release stated that so far only seven states have sent their VAT legislation for Presidential assent. "Introduction of VAT in a patchwork form by individual States without corresponding action by others is not a workable proposition. It is clear, therefore, that States would not be able to introduce VAT by April 1", the release said. (Source: Business Line, 04/02/03)

EXPORT-IMPORT POLICY FOR 2003/04 - AGRICULTURAL ASPECTS

Commerce Minister Arun Jaitley announced India's Export and Import Policy (EXIM Policy) for the Indian Fiscal Year 2003/04 (Apr-Mar) on March 31, which represents an amendment to the Five Year Export and Import Policy (2002 - 2007) announced last year. The new EXIM Policy focuses almost exclusively on stimulating export growth through a variety of measures aimed at specific sectors so as to attain at least 1 percent of the global merchandise trade. The new policy lays a major emphasis on agricultural exports with an increased thrust on Agricultural Export Processing Zones (AEZs). AEZ's promote production to marketing (end-to-end) development of export specific products from geographically contiguous area. So far the government has notified 45 such AEZs in different parts of the country, sponsored by state governments for products like mangoes, potatoes, grapes, apples, and flowers. To provide a further impetus to AEZs, the government has now permitted the corporate sector to sponsor AEZs or take over already notified zones to boost agricultural exports. The government further removed quantitative import restrictions on 69 items, including several spices and meat products. For the full text of the new policy and the Commerce Minister's speech visit Website: <http://dgftcom.nic.in> .

GRAIN PROCUREMENT COSTS MAY HIT GDP GROWTH

The management of grain stocks in India has come in for some harsh scrutiny in the recent past, spurred by the anomaly of huge grain stocks hand-in-hand with poverty and starvation. Rising procurement prices have been identified as the culprit, responsible not only for creating these massive stocks but also for the fiscal burden from the food subsidy. According to a study by Prof. Kirit Parikh of the Indira Gandhi Institute of Development Research (IGIDR), an increase in the Minium Support Price of wheat and rice leads to a decline in GDP, an increase in aggregate price index, and a reduction in investment. (Source: Economic Times, 04/03/03 & Economic and Political Weekly, 03/01/03)

BANGLADESH TO IMPORT RICE AND WHEAT

Bangladesh has said it would import 200,000 tons of rice and wheat by tender to curb soaring food prices and alleviate shortfall in supplies. Food Ministry officials said imports would consist of 100,000 tons of rice and 100,000 tons of wheat. "The cabinet committee has decided to procure the grains immediately to keep food prices stable and offset any shortfall", a Ministry official said. The imports would boost government combined wheat and rice stocks to 900,000 tons. (Source: Business Line, 04/01/03)

DOUBLE GRAIN OUTPUT IN TEN YEARS

A renowned agricultural scientist and former Director General of Indian Council of Agricultural Research (ICAR) warned in his recent book "Sustaining Our Food Security", that India's food security will become unsustainable unless grain output is doubled to over 400 million tons in the next ten years. This acceleration will have to come despite diminishing land resources, increasing biotic and abiotic stresses, climate change, rising input costs, loss of bio-diversity, and bourgeoning population. This projection is made keeping in view the country's growth in population, income, food demand, feed demand, seed and other industrial demand. In his book, Dr. Paroda cautions that the target will be unattainable unless major support is given rainfed areas, particularly in eastern India. He observes that there is a tremendous potential by way of new products and processes offered by **biotechnology** to increase food production. "By transferring Bt genes into plants, we can virtually build an insecticide factory inside the plant", he comments. (Source: Tribune, 03/31/03)

DUTY ON EDIBLE OIL MAY BE REVISED

There have been concerns by the manufacturers/marketers of the branded and packaged edible oils that the eight percent excise duty on such products would shift the demand towards unbranded edible oil. In response, the chairman of the Central Board of Customs and Excise, Mr. M.K. Zutshi, told reporters that the government noted the concerns of the industry and would review their current policy. He said that the decision to revise the excise duty rate, if any, would be announced by Finance Minister Jaswant Singh. The industry representatives oppose the 8 percent excise duty on branded and packaged edible oils, saying it renders them uncompetitive and may lead to a shift in demand towards unbranded edible oils packed by the excise saving, "fly-by-night", companies which may not meet health standards, and may turn out to be harmful to the consumers. (Source: Tribune 03/30/03)

CALIFORNIA PRUNES ENTER SOUTH INDIA

After almonds, grapes and pistachios, now prunes from California are set to find a place on Indian breakfast tables. The California Prune Board (CPB) is targeting the Indian market through South India. The CPB has tied up with the retail chain Nilgiri's for a series of promotional activities in the major cities of Bangalore, Chennai, Pondicherry, Coimbatore, etc. The Southern market has been selected due to higher awareness level amongst the consumer, as they have been using prunes for some time in bakery products, etc. The prunes are currently being retailed at rs. 140-150 (approximate $3.0) per pack of 340 grams. The CPB representatives expect the prune imports to rise to 10,000 metric tons from the present level of 20 metric tons within the next four years. The CPB is planning to tie in medical practitioners and bakeries along with other retail chains in their promotional campaigns in other parts of the country. (Source: Business Line 3/31/03)

IRAQ WAR HITS HOTEL INDUSTRY

The Indian hotel industry is once again facing problems because of war in Iraq, and the impact will worsen if the war is prolonged. The Federation of Hotel and Restaurant Association of India reported higher booking cancellations since the start of the war. The holiday traffic from abroad will be severely affected if the war continues further. The essential business travel may improve depending on the war situation and resumption of flight arrivals in India. (Source: Business Line 4/2/03)

INDIA SEEKS FRENCH HELP TO DEVELOP GRAPES FOR WINE

The Minister of State for Food Processing Industry sought increased collaboration from France in developing suitable varieties of grapes for wine processing at a seminar on `Developing Food Business with France', which was organized by a few local industry associations and Embassy of France. He stated that India expects foreign direct investments and technologies from advanced countries like France. (Source: Business Line 4/4/03)

PALM OIL SHIPMENTS STEADY DESPITE WAR

Palm oil shipments to Asian markets from the major exporters of Malaysia and Indonesia continue to increase despite higher freight rates arising from war related risk. Freight rates from Malaysia and Indonesia, the world major palm oil producers, to main buyers such as India, China, and Pakistan increased by $2-3 a ton. The price premium of palm oil over soybean oil in the region rose by more than $100 a ton boosted by lower risk premium for palm oil, leading to higher shipments. Palm oil shipments in March from Malaysia, the world's largest exporter, have been estimated by the trade at one million tons compared with 893,322 tons a year ago. (Source: Business Line, 04/04/2003)

VEGETABLE OIL REFINERS SEEK MONTHLY REVIEW OF SOYBEAN OIL TARIFF VALUE

The executive director of the Indian Vegetable Oil Processors Association (IVOPA), Mr. D.N. Pathak, said in a press conference that their association urged the government to institute a mechanism for monthly revisions of tariff value of crude degummed soybean oil in order to avoid unnecessary speculation in the market. Currently, the tariff value is being fixed on a completely ad-hoc basis, and the trade operates under a situation of complete uncertainty. He indicated that with the current tariff value of $600 per ton, and the actual CIF cost of the crude degummed oil being quoted at $520 - 525 per ton, the actual duty paid by the importers works out to be higher at 51 percent compared with the current WTO bound basic customs duty of 45 percent. Hence, it was suggested by him that a monthly revision of tariff values would avoid higher prices for edible oils as the entire burden of the higher tariff is currently being passed on to the consumers. (Source: Business Line 04/02/03)

CONTRACT FARMING LEGISLATION SOON: AG MINISTER

Speaking at the Agriculture Summit organized by the Confederation of Indian Industries (CII) in Mumbai, Agriculture Minister Ajit Singh stated that a model contract farming legislation will be framed soon, which would enable a partnership between farmers and industry. The model law should provide for a tripartite arrangement between the farmer, industry, and the government. He added that corporate farming rather than cooperative farming would be the future focus. Anand Mahindra, Vice President of CII opined that, contrary to popular perception, there is a huge opportunity for the corporate sector to work with farmers, and there is a need for both the central government and state governments to promote this. (Source: Business Standard, 04/04/03)

*POST FOLLOW-UP***:** Post has confirmed that the change in the GOI's foreign aid policy change reported in the Weekly Highlights and Hot Bite Report #13 (IN3022) pertains only to financial aid and not to commodity aid.

RECENT REPORTS SUBMITTED BY FAS/NEW DELHI

REPORT#	***SUBJECT***	***DATE SUBMITTED***
IN3022	Weekly Highlights & Hot Bites, #13	03/28/2003
IN3024	Cotton & Products Update - April	03/31/2003
IN3025	Grain & Feed Update - April	03/31/2003
IN3026	Oilseeds & Products Update - April	04/01/2003
CE3002	Sri Lanka Grain & Feed Annual - 2003	04/02/2003

WE ARE ON THE NET

We are available at http://www.usembassy.state.gov/posts/in1/wwwh43.html or visit our headquarter's home page at http://www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/NEWDELHI EMAIL

To reach us at FAS/New Delhi, email us at Agnewdelhi@usda.gov.